

Message Text

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ACTION EB-11

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C O N F I D E N T I A L SECTION 1 OF 2 PARIS 1670

STATE FOR T/IEP

E.O. 11652: GDS

TAGS: ENRG

SUBJECT: EMERGY: FRENCH VIEWS ON INTERNATIONAL ENERGY CONFERENCE

REF: STATE 12410

BRIDFING PAPER FOR INTERNATIONAL ENERGY CONFERENCE REQUESTED

REFTEL FOLLOWS:

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1. FRENCH VIEWS ON ENERGY CONFERENCE.

A. THE FRENCH APPROACH THE U.S. PROPOSAL FOR AN INTERNATIONAL ENERGY CONFERENCE WITH A LACK OF ENTHUSIASM BORDERING ON HOSTILITY. THIS IS FOUNDED IN PART ON A PESSIMISTIC OUTLOOK TOWARD THE CHANCES OF MAKING ANY REAL PROGRESS TOWARD AN INTERNATIONAL SOLUTION OF PRESENT ENERGY QUESTIONS, PARTICULARLY THE QUESTION OF BRINGING FORTH ADEQUATE OIL SUPPLIES. MORE IMPORTANTLY, IT IS BASED ON APPREHENSION THAT SUCH A CONFERENCE COULD PREJUDICE THE ATTAINMENT OF IMPORTANT FRENCH GOALS. THE FRENCH BELIEVE THAT THEIR RESPONSE TO THE ENERGY CRISIS, AND THEIR EFFORTS TO DEAL WITH IT, CANNOT BE SEPARATED FROM THEIR GENERAL DOMESTIC GOALS AND THEIR FOREIGN POLICY OBJECTIVES. THIS MEANS THAT THEY VIEW THE ENERGY CONFERENCE PRIMARILY IN TERMS OF ITS POSSIBLE LIMITING

EFFECTS ON THEIR ABILITY TO ASSURE FRANCE A SECURE AND REASONABLY PRICED SUPPLY OF ARAB PETROLEUM TO AVERT RECESSION AND UNEMPLOYMENT, WITH ECONOMIC, SOCIAL AND POLITICAL CONSEQUENCES THIS WOULD ENTAIL FOR FRANCE. SECONDLY, THE FRENCH SEE THE CONFERENCE AS PREJUDICIAL TO THEIR EFFORTS TO CREATE A COHESIVE EC UNDER THEIR LEADERSHIP, AND TO FORGE A NEW EUROPEAN-MEDITERRANEAN COMMUNITY WHICH COULD SERVE TO MAXIMIZE FRENCH INFLUENCE IN THAT AREA (PARTICULARLY THEIR PERCEIVED FAVORED POSITION WITH THE ARABS) AND TO APPEAR AS PATRON OF THE LDC'S. IN THEIR VIEW, PARTICIPATION IN

A CONFERENCE, WHICH THEY FEAR WILL REPRESENT A US-LED EFFORT

TO UNITE THE RICH OIL CONSUMING NATIONS AGAINST THE OIL PRODUCERS AND IN WHICH EC AND FRENCH INFLUENCE WILL BE DILUTED, CAN SERVE NONE OF THOSE GOALS. THEY ARE SOMEWHAT RESENTFUL OF THE FACT THAT THE PRESENT CRISIS HAS STRENGTHENED THE U.S. ECONOMIC POSITION COMPARED TO THEIR AND THAT OF THE REST OF THE WORLD, AND ARE SUSPICIOUS THAT THE U.S. MAY AIM TO USE THE CONFERENCE TO REASSERT ITS "DOLLAR HEGEMONY" IN THE WORLD.

B. IT FOLLOWS FROM THE ABOVE THAT THE MAJOR FRENCH GOVERNMENT OBJECTIVE AT THE CONFERENCE WOULD BE TO MAINTAIN ITS OWN FREEDOM OF ACTION, SPECIFICALLY TO NEGOTIATE BILATERAL ENERGY AND DEVELOPMENT AGREEMENTS WITH ARAB OIL PRODUCERS. AT THE SAME TIME, THE FRENCH WOULD HOPE TO BENEFIT FROM THE WORK
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OF THE CONFERENCE IN THOSE AREAS IN WHICH THEY DO SEE POSSIBILITIES FOR PROGRESS ON THE INTERNATIONAL LEVEL-- SHARING OF ENERGY TECHNOLOGIES, RESEARCH AND DEVELOPMENT PROGRAMS, AND EFFORTS TO ESTABLISH A NEW PRICING SYSTEM FOR OIL. THE FRENCH HAVE ADVANCED A FIVE-POINT PROPOSAL WHICH IN EFFECT ATTEMPTS TO DIVIDE THE ISSUE INTO SEPARATE ELEMENTS WHICH WOULD ENABLE THEM TO KEEP THEIR OPTIONS OPEN. THE FRENCH PROGRAM CALLS FOR A UN CONFERENCE ON ENERGY, CONSULTATION

BETWEEN CONSUMER GOVERNMENTS, AND JOINT RESEARCH PROGRAMS ON NEW ENERGY SOURCES, BUT WOULD PLACE NO RESTRICTIONS ON THE RIGHT OF INDIVIDUAL COUNTRIES OR GROUPS TO NEGOTIATE SPECIAL SUPPLY ARRANGEMENTS WITH OIL PRODUCERS.

C. THE FRENCH WILL WORK WITHIN THE EC CONTEXT TO ATTEMPT TO ASSURE THAT THE WASHINGTON CONFERENCE WILL NOT WORK AGAINST THEIR GOALS AS DESCRIBED ABOVE. WITHIN THE NEXT FEW WEEKS, WE EXPECT THE FRENCH WILL ATTEMPT TO CONVINCE THEIR EC PARTNERS TO SUBSCRIBE TO THEIR FIVE-POINT PROGRAM, ALTHOUGH THEIR UNILATERAL DECISION TO FLOAT THE FRANCE MAY HAVE REDUCED THEIR ABILITY TO DO SO. IF UNSUCCESSFUL IN THESE EFFORTS, THEY WILL CONTINUE TO PUSH FOR EC AGREEMENT TO SPEAK WITH ONE VOICE IN WASHINGTON, GIVING FRANCE AN EFFECTIVE VETO OVER THE EC POSITION.

2. FRENCH CONCERNS AT CONFERENCE.

A. THE PRIMARY SENSITIVITY OF THE FRENCH, IF THEY ATTEND THE WASHINGTON CONFERENCE AS WE BELIEVE THEY WILL IN THE END DECIDE TO DO AT SOME LEVEL, WILL BE TO ASSURE THAT NO POSITIONS TAKEN BY THE CONFERENCE COULD LEAD THEM INTO A CONFRONTATION WITH THE OIL PRODUCERS. THEY FEAR THAT SUCH A CONFRONTATION WOULD PREJUDICE THEIR POSITION WITH THE ARABS, AND, IN ADDITION, THAT IT WOULD MAKE A SOLUTION TO ENERGY ISSUES STILL MORE DIFFICULT. THEY WILL CONSEQUENTLY WISH TO AVOID ANY STEPS WHICH COULD BE SEEN BY THE OIL PRODUCERS AS PROVOCATIVE. THEIR SECOND MAJOR CONCERN WILL BE TO RESIST ANY DEVELOPMENT AT THE CONFERENCE WHICH COULD STRENGTHEN THE U.S. NEGOTIATING POSITION VIS-A-VIS EUROPE, OR PROMOTE THE MAINTENANCE OF THE PREDOMINANT PLACE OF THE INTERNATIONAL OIL COMPANIES IN THE MARKETPLACE. THEY FEAR THAT THE INEVITABLE CONSEQUENCE OF THE CONFERENCE MAY BE TO BRING ABOUT A CONFRONTATION AND TO STRENGTHEN THE POSITION OF THE U.S., EVEN IF THESE ARE NOT AMONG THE CONSCIOUS GOALS OF THE U.S. THEY WILL BE PREPARED TO BE OBSTRUCTIONIST UNLESS

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THEIR APPREHENSIONS CAN BE EASED FROM THE START.

B. THIS POTENTIAL FRENCH ROLE OF SPOILER CAN, WE BELIEVE, BE REDUCED IF WE MOVE TO COUNTER FRENCH APPREHENSIONS. THE INITIAL STEP OF SHARING OUR LETTER TO OPEC CAPITALS WITH THE FRENCH WAS WELL TAKEN, BUT WE MUST RECOGNIZE THAT THEIR READING OF OPEC GOVERNMENTS' REACTIONS TO THE PRESIDENT'S INITIATIVE IS LIKELY TO BE MORE ALARMIST AND NEGATIVE THAN OURS. WE BELIEVE WE SHOULD AS A RESULT MAKE SPECIAL EFFORTS TO KEEP THE GOF INFORMED, BOTH IN WASHINGTON AND HERE, OF OUR PREPARATIONS FOR THE CONFERENCE AND OUR READINGS OF OPEC REACTIONS. WE SHOULD ALSO EMPHASIZE THE POSITIVE NATURE OF U.S. CONFERENCE GOALS - I.E. THE RETURN OF ORDER TO THE OIL MARKET BUT IN A WAY WHICH LEAVES ROOM FOR NEW COMPANIES AND OIL PURCHASERS; THE STABILIZATION OF PRICES THROUGH THE DEVELOPMENT OF LONG-TERM INTERNATIONAL TRADE, FINANCE AND

AID MECHANISMS, DEFERRED PAYMENTS; AND THE PROTECTION OF THE INTERESTS OF THE DEVELOPING COUNTRIES, AS WELL AS OF THE MAJOR CONSUMERS, IN ACCESS TO REASONABLY PRICED SOURCES OF ENERGY. WE SHOULD CONSIDER SURFACING SOME OF OUR PRELIMINARY THINKING BEFOREHAND TO THE FRENCH AND ENCOURAGING THEIR CONTRIBUTIONS. WE BELIEVE THAT THEY WOULD RESPOND FAVORABLY, AND THAT SUCH APPROACHES MIGHT HELP REDUCE THE SUSPICION WHICH IS BASIC TO OUR PROBLEMS WITH THE GOF. WE SHOULD ALSO CONSIDER THE USEFULNESS OF ENCOURAGING THE GERMANS AND THE BRITISH TO WEIGH IN WITH POSITIVE ARGUMENTS TO THE FRENCH ABOUT THE CONFERENCE.

3. IMPACT ON FRANCE OF THE ENERGY CRISIS.

A. THE IMMEDIATE IMPACT OF THE ARAB OIL CUTBACK ON FRANCE HAS NOT BEEN SEVERE. FRANCE HAS BEEN ABLE TO CAPITALIZE ON LARGE (90-DAY) EFFECTIVE OIL STOCKS AND A FAVORABLE POSITION WITH THE ARAB SUPPLIERS WHICH HAS ASSURED THAT SUPPLIES WERE MAINTAINED AS NEAR AS POSSIBLE TO EXISTING LEVELS, AT LEAST DURING THE EARLY WEEKS OF THE BOYCOTT. BY THE TURN OF THE YEAR, HOWEVER, FRANCE WAS FACED WITH A PROSPECTIVE SHORTFALL OF ALMOST 15 PER CENT OF EXPECTED SUPPLIES, AND PERHAPS ONLY THE RELAXATION OF THE ARAB PRODUCTION CURTAILMENT MADE IT POSSIBLE TO AVOID A SERIOUS CONFRONTATION BETWEEN THE GOF AND THE INTERNATIONAL OIL COMPANIES OVER THE LATTER'S ALLOCATION OF THE SUPPLY

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SHORTAGES.

B. FRANCE'S SUPPLY SHORT FALL DEC. 1973 - MARCH 1974 IS PREDICTED TO BE NO MORE THAN 10 PER CENT UNDER PREVIOUS EXPECTATIONS. THE GOVERNMENT BELIEVES THIS SHORTFALL CAN BE MANAGED BY SOME STOCK DRAWDOWN AND REDUCED CONSUMPTION. THE GOF HAS TIGHTENED UP ITS ABILITY TO ALLOCATE FUEL SUPPLIES, HAS IMPOSED NATURAL GAS RATIONING IN PARTS OF SOUTHERN FRANCE (A RESULT OF THE BREAKDOWN OF A ALGERIAN LNG PLANT), AND HAS OBLIGED OIL REFINERS TO ALLOCATE SUPPLIES TO THE INDEPENDENT FUEL-OIL MARKETERS WHOSE NORMAL SUPPLIES HAVE RUN DRY. IT HAS ALSO ATTEMPTED TO REDUCE CONSUMPTION BY IMPOSING RESTRICTIONS ON PUBLIC LIGHTING, TV BROADCAST HOURS, SPEED LIMITS AND HEATING IN GOVERNMENT ESTABLISHMENTS; AND HAS URGED THE PUBLIC TO ECONOMIZE IN FUEL USE. MORE IMPORTANTLY, IT EXPECTS THE EFFECTS OF THE LARGE PRICE INCREASES ON PETROLEUM PRODUCTS WHICH IT HAS AUTHORIZED SINCE OCTOBER TO REDUCE CONSUMPTION IN THE FACE OF WHAT IT EXPECTS WILL BE A CONTINUED SHORT SUPPLY SITUATION, EVEN WHEN THE EMBARGO IS LIFTED.

C. THE GOF HAS, UNTIL RECENTLY, CONSISTENTLY DOWNPLAYED THE PROSPECTS OF OIL SHORTAGES AND OF THEIR ECONOMIC EFFECTS--WHETHER AS A RESULT OF ARAB BOYCOTT OR PRICE RISES. WHILE

PART OF THE REASON MAY HAVE BEEN A DESIRE TO SHOW THAT
FRANCE'S (DOMESTICALLY

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C O N F I D E N T I A L SECTION 2 OF 2 PARIS 1670

NOT VERY POPULAR) MIDDLE EAST POLICY HAS PAID OFF FOR THE COUNTRY,
A SUBSTANTIAL ELEMENT IN ITS PUBLIC OPTIMISM WAS THE GOVERNMENTS
READING OF THE LESSON OF 1968 - THAT ECONOMIC SLOWDOWN AND UNEMPLOY-
MENT CAN POSE GRAVE POLITICAL PROBLEMS IN A COUNTRY WHICH TAS
BECOME ACCUSTOMED TO A HIGH RATE OF ECONOMIC GROWTT. THIS PUBLIC
POSTURE CHANGED FOLLOWING THE DECEMBER OIL PRICE RISES AND
A GROWING RECOGNITION THAT FRANCES DIFFICULTIES WILL BE MORD
RELATED TO PRICE FACTORS THAN SUPPLY RESTRICTIONS. THE PUBLIC

HAS NOW BEEN WARNED THAT 1974 WILL BE A DIFFICULT YEAR.

D. INTERNAL GOF FORECASTS INDICATE A REDUCTION OF THE EXPECTED
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RATE OF REAL GROWTH FROM 5.5 TO 4. - 4.5 PERCENT IN 1974 WITH A
CONSEQUENT RISE IN UNEMPLOYMENT. THE MOST RECENT PRICE INCREASES
WILL ADD 1.5 TO 2.0 PERCENT TO AN ALREADY SEVERE RATE OF INFLATION.
INCREASED PETROLEUM COSTS HAVE BEEN PUBLICLY FORECAST TO GENERATE
A GOODS AND SERVICES ACCOUNT DEFICIT OF OVER DOLS 3 BILLION IN
1974. EFFORTS ARE SLATED TO COUNTER THIS THROUGH INCREASING
EXPORTS, REVERSING AN EXCHANGE CONTROL SYSTEM WHICH DISCOURAGED
INFLOWS AND ENCOURAGED OUTFLOWS, AND SINCE JANUARY 19, REMOVING
THE FRANC FROM THE EUROPEAN CURRENCY BLOC AND FLOATING IT
SEPARATELY.

E. CERTAIN ECONOMIC EFFECTS OF PETROLEUM PRICE/SUPPLY DEVELOP-
MENTS HAVE ALREADY BEEN FELT. NEW ORDERS AND ACTIVITY IN THE
AUTO AND AIRCRAFT INDUSTRIES HAVE BEEN AFFECTED. THE PETRO-
CHEMICALS AND THE SYNTHETIC FIBER INDUSTRIES WHICH DEPENDS
ON OIL HAVE SEEN THEIR FEEDSTOCKS ALREADY IN SHORT SUPPLY REDUCED
FURTHER IN THE WAKE OF RECENT EVENTS. IN ADDITION, THE MOST
RECENT BUSINESS SURVEYS SHOW GROWTH SLOWING SHARPLY AS BOTH
BUSINESS AND CONSUMERS BECOME MORE PESSIMISTIC.

4. FACT SHEET.

A. FRENCH ENERGY CONSUMPTION AND IMPORTS:

PRODUCT	PERCENT OF TOTAL	
	ENERGY CONSUMPTION	PERCENT IMPORTED
PETROLEUM	65	99
COAL	15	29
GAS	8	46
HYDROELECTRIC	7	--
NUCLEAR	2	--

I.E., APPROXIMATELY 70 PERCENT OF ENERGY CONSUMED IS IMPORTED.

B. OIL CONSUMPTION:

TOTAL 1973 (EST.) 111 MILLION T (2.2 MILLION B/D)

PRINCIPAL SUPPLIERS (APPROXIMATE PERCENT)

SAUDI ARABIA	23
IRAQ	12
KUWAIT	12
ABU DHABI	11
ALGERIA	8

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LIBYA	6	
OTHER ME AND NA		6
NIGERIA	9	
IRAN	8	

NB: ARAB SUPPLIERS ACCOUNT FOR 78 PERCENT OF FRENCH OIL IMPORTS.

C. SOURCE OF COAL IMPORTS: GERMANY (50 PERCENT), POLAND AND U.S. (14 PERCENT EACH), USSR (10 PERCENT).

D. SOURCE OF GAS IMPORTS: NETHERLANDS (45 PERCENT), ALGERIA (5 PERCENT).

E. THE GOF HAS NOT RELEASED 1973 B/P FIGURES OR MADE 1974 PROJECTIONS. WE HAVE AN INTERNAL ESTIMATE THAT 1973 CURRENT ACCOUNT WILL BE IN APPROXIMATE BALANCE AND THAT LARGE (1 BILLION SDR) LONG-TERM CAPITAL OUTFLOWS WILL BE OFFSET BY APPROXIMATELY EQUAL SHORT TERM CAPITAL INFLOWS. THE FLOATING OF THE FRANC ON JANUARY 19 GREATLY COMPOUNDS THE DIFFICULTY OF FORECASTING THE 1974 BALANCE OF PAYMENTS. THE GOF HAS PUBLICLY ANNOUNCED THAT THEY EXPECT INCREASED OIL PRICES TO ADD DOLS 6 BILLION TO THE IMPORT BILL AT EXPECTED RATES OF CONSUMPTION, OR DOLS 5 BILLION WITH A 10 PERCENT REDUCTION IN CONSUMPTION. THIS WOULD REDUCE A DOLS 1.3 BILLION SURPLUS IN THE GOODS AND SERVICES ACCOUNT (NATIONAL ACCOUNTS BASIS) TO ABOUT A DOLS 3.7 BILLION DEFICIT IN 1974. THE GOF HAS CONCEDED THIS ACCOUNT WILL BE IN SUBSTANTIAL DEFICIT IN 1974 BUT HAS EXPRESSED WHAT SEEMS TO US LARGELY UNATTAINABLE HOPE THAT BALANCE CAN BE ACHIEVED IN 1975.

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